INTERCO

1976 ANNUAL REPORT

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INTERCO
65th Annual Report

The Company at a Glance . . .

INTERCO is a major manufacturer and retailer of popular-priced consumer products and services represented by three operating groups.

Apparel Manufacturing Group designs, manufactures and distributes a full range of popular-priced branded and private-label sportswear, casual apparel, and outer garments for men and women. Distribution is national in scope to major department stores, specialty shops, and other retail units. Substantial distribution, under private label, is made to large national retail chains. INTERCO's apparel is produced in 51 manufacturing plants and shipped to customers from 11 major distribution centers.

General Retail Merchandising Group operates 655 retail stores in most regions of the country, offering to the entire family a wide assortment of popular-priced products and services. General retailing operations include junior department stores, discount stores, men's specialty apparel shops, specialty department stores and supermarket-type hardware, lumber and building materials stores. Stores are supplied from 8 modern regional distribution centers.

Footwear Manufacturing and Retailing Group styles, manufactures and wholesales men's, women's and children's footwear in most major price ranges in the United States and Canada, and manufactures and wholesales men's footwear in Australia. Facilities include 34 shoe manufacturing plants and 7 major distribution centers. INTERCO also operates 867 retail shoe stores and leased shoe departments in the United States, Australia, Canada and Mexico.

Contents — **Page**

Annual Meeting of Stockholders
will be held at 10 a.m. on June 21, 1976

Clayton Inn Center, 7777 Bonhomme, Clayton, Missouri

Notice of the meeting and proxy statement
will be sent to stockholders in a separate mailing.

Highlights

Fiscal Years Ended	February 29 1976	February 28 1975	Change
From operations:			
Net sales	**$1,376,365,000**	$1,333,229,000	+ 3.2%
Earnings before income taxes	**132,652,000**	119,436,000	+ 11.1%
Net earnings	**67,009,000**	60,296,000	+ 11.1%
Percent of net sales	**4.9%**	4.5%	
Per share of common stock:			
Fully diluted earnings	**$4.84**	$4.38	+ 10.5%
Dividends	**$1.47½**	$1.43½	+ 2.8%
Financial condition at year end:			
Working capital	**$ 428,240,000**	$ 387,829,000	+ 10.4%
Current ratio	**4.2 to 1**	4.7 to 1	
Total assets	**700,122,000**	624,369,000	+ 12.1%
Stockholders' equity	**496,864,000**	447,093,000	+ 11.1%
Return on stockholders' average investment	**14.1%**	14.0%	
Shares outstanding at year end:			
Common stock	**13,320,326**	13,087,471	
Preferred stock	**141,327**	162,056	
Number of stockholders	**17,400**	20,000	
Number of employees	**43,800**	42,700	

INTERCO

Maurice R. Chambers

To Our Stockholders

Fiscal Year ended February 29, 1976, was another record year for your company . . . the twelfth consecutive year of higher sales and earnings.

The management of a company should be judged by how it performs during difficult economic years, as well as during good economic years. Consumer resistance during most of calendar 1975, along with a general lack of confidence — the lowest in many years — made it a very challenging year for our management group. INTERCO met this test during the fiscal year just finished. It is particularly pleasing to report, as a result of our management disciplines and our ability to control our business, that we again had record sales . . . record earnings . . . and the strongest financial position in our long history.

One of the great strengths of INTERCO today is that we have structured the company into several natural areas, within which each business is professionally managed on an autonomous basis, thus creating an environment in which management can best meet the planned objectives of the corporation.

Communication is achieved on a regular basis by meeting monthly at corporate headquarters with the presidents of our operating divisions for critical and objective reviews by the Operating Board. Strengths and weaknesses are identified with the constant objective of "accentuating the positive and eliminating the negative."

INTERCO's program of expansion and diversification continued during fiscal 1976 with the addition of two great apparel manufacturing companies, each with a long history of profitable consumer acceptance. Queen Casuals, Inc. was acquired on February 20, 1976, and Londontown Corporation on February 25, 1976. These two new member companies offer future growth opportunities in the apparel portion of our business. Londontown allows INTERCO to enter the fast-growing market of outerwear with a position of dominance. We invite you to familiarize yourself with these fine companies which are covered in pages eight through eleven of the Annual Report.

Our program of diversification and expansion through profitable acquisitions will continue to be an important part of INTERCO's planned growth.

The quarterly common stock dividend was increased to 38 cents per share, with the January 5, 1976 payment, and represented the eleventh consecutive year in which the dividend rate was increased. This is equivalent to an annual rate of $1.52 per share. The recent April 5, 1976 quarterly payment was the 260th quarterly common dividend of your company without interruption.

As I reported to you in the Interim Report to Shareholders on January 5, 1976, it will be recommended to the Board of Directors on June 21, 1976 that I be succeeded as Chairman of the Board and Chief Executive Officer by William L. Edwards, Jr., presently Vice Chairman of the Board and Chief Administrative Officer of the company. This election will assure a planned succession and continuity of the policies which have been developed during the past fourteen years. John K. Riedy will continue as President and Chief Operating Officer of INTERCO.

It will also be recommended to the Board that I serve as chairman of the executive committee, and as a member of the audit, finance and executive compensation committees of the Board of Directors. Mr. Edwards, Mr. Riedy and I will comprise the Office of the Chief Executive.

We will continue to examine critically all operations to assure sound employment of our assets, to maintain our aggressive cost control program, and to intensify our realistic profit improvement objectives.

We are confident concerning INTERCO's future. The company's financial position is excellent and its products and services are competitive. We expect fiscal 1977 to be another good year for your company.

We are most grateful for the confidence shown by INTERCO's investors, and are sincerely appreciative to our fine employees everywhere for their continued loyalty and dedication.

We celebrate our country's 200th anniversary this year, and we join all Americans in paying tribute to those before us who made our present way of life possible.

M. R. Chambers

Chairman of the Board
and Chief Executive Officer

April 12, 1976

Fiscal 1976 in Review

Sales and earnings for the fiscal year ended February 29, 1976, were the highest in the company's history. This was the twelfth consecutive year in which new records in sales and earnings were established.

Net sales were \$1.38 billion, net earnings were \$67.0 million and fully diluted earnings per share were \$4.84.

The company's fiscal year ends on the last day in February. In this review, all reference to fiscal 1976 refers to the fiscal year ended February 29, 1976, and fiscal 1975 refers to the fiscal year ended February 28, 1975.

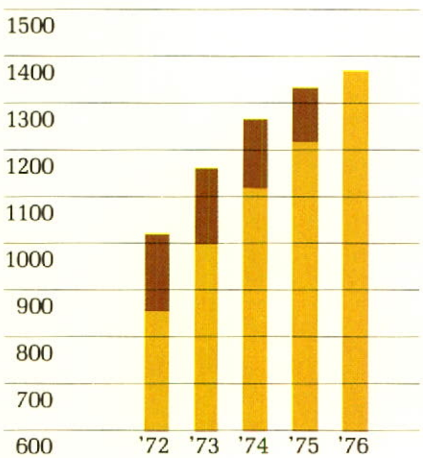
The comparative financial statements and references to fiscal 1975, shown in this report, have been restated to include the acquisitions of Queen Casuals, Inc. and Londontown Corporation, on a pooling of interests basis.

The operating groups' sales and earnings before income taxes, corporate expenses and interest cost for a five-year period were, in thousands of dollars, as follows:

	FISCAL YEARS ENDED				
	1976	1975	1974	1973	1972
Net sales:					
Apparel.	**484,590**	469,476	427,764	373,866	314,937
General Retail. . .	**425,905**	385,389	363,176	342,630	312,141
Footwear.	**465,870**	478,364	477,603	442,571	399,971
Total	**\$1,376,365**	\$1,333,229	\$1,268,543	\$1,159,067	\$1,027,049
Earnings before income taxes:					
Apparel.	**65,865**	54,166	49,039	40,919	30,460
General Retail. . .	**30,211**	25,281	23,798	18,181	17,983
Footwear.	**44,683**	51,370	45,697	43,642	37,219
	140,759	130,817	118,534	102,742	85,662
Less corporate expenses and interest cost . .	**8,107**	11,381	10,336	7,991	8,302
Total	**\$ 132,652**	\$ 119,436	\$ 108,198	\$ 94,751	\$ 77,360
As a percent of sales	**9.6%**	9.0%	8.5%	8.2%	7.5%

NET SALES

Millions of Dollars



As reported

Restated for companies acquired on a pooling of interests basis for years prior to their affiliation.

SALES

Net sales for the year were a record \$1.38 billion, an increase of \$43.2 million or 3.2% over the restated volume of \$1.33 billion for fiscal 1975. Net sales of \$1.22 billion were reported last year.

The sales contribution by the operating groups of the company is compared in millions of dollars:

	Fiscal 1976		**Fiscal 1975**		**%**
	Sales	**%**	**Sales**	**%**	**Change**
Apparel	\$ 484.6	35.2	\$ 469.5	35.2	+ 3.2
General Retail	425.9	30.9	385.4	28.9	+ 10.5
Footwear	465.9	33.9	478.3	35.9	− 2.6
	\$1,376.4	100.0	\$1,333.2	100.0	+ 3.2

The Apparel Manufacturing and General Retail Groups—representing 66.1% of the sales of INTERCO for fiscal 1976—had a record year.

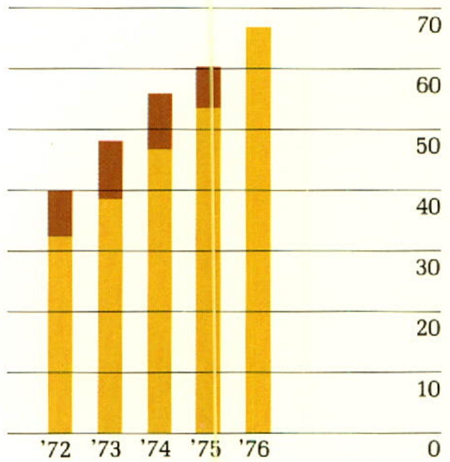
Sales of the Footwear Group were down slightly from the record sales of last year. This reduction occurred in our footwear manufacturing business during the first half of fiscal 1976 as shoe retailers allowed their inventories to fall below normal levels. Footwear manufacturing orders picked up sharply in the last half of the year and continue to be strong during the early part of our new fiscal year. The retail segment of our footwear business continued strong throughout the fiscal year ended February 29, 1976.

The net sales of the company, by quarters, in millions of dollars were:

	Fiscal 1976	Fiscal 1975
First quarter	$ 309.9	$ 328.8
Second quarter	335.3	341.1
Third quarter	369.5	348.0
Fourth quarter	361.7	315.3
	$1,376.4	$1,333.2

NET EARNINGS

Millions of Dollars



As reported

Restated for companies acquired on a pooling of interests basis for years prior to their affiliation.

EARNINGS

Earnings before income taxes for fiscal 1976 were a record $132.7 million, reflecting an increase of $13.3 million or 11.1% higher than the restated fiscal 1975 pre-tax earnings of $119.4 million. Pre-tax earnings reported in fiscal 1975 were $105.3 million.

Pre-tax earnings of each operating group, before corporate expenses and interest cost, are compared in millions of dollars:

	Fiscal 1976		Fiscal 1975		%
	Amount	%	Amount	%	Change
Apparel	$ 65.9	46.8	$ 54.1	41.4	+ 21.6
General Retail	30.2	21.5	25.3	19.3	+ 19.5
Footwear	44.7	31.7	51.4	39.3	− 13.0
	$140.8	100.0	$130.8	100.0	+ 7.6
Less corporate expenses and interest cost	8.1		11.4		− 28.8
Earnings before income taxes	$132.7		$119.4		+ 11.1

The Apparel Manufacturing and General Retail Groups—representing 68.3% of the earnings of INTERCO for fiscal 1976—had a record year.

The decrease in the Footwear Group earnings in fiscal 1976 was attributable to footwear manufacturing, as our retail shoe business operated at a record high level. In fiscal 1975, the Footwear Group had a record year with an increase of 12.4% over fiscal 1974.

Net earnings for the year were a record $67.0 million, an increase of 11.1% over the restated net earnings of $60.3 million in the previous year. The reported net earnings for fiscal 1975 were $53.6 million. INTERCO's margin of profit—net earnings to net sales—continued to increase to a record 4.9% for fiscal 1976 compared with 4.5% restated for the prior year.

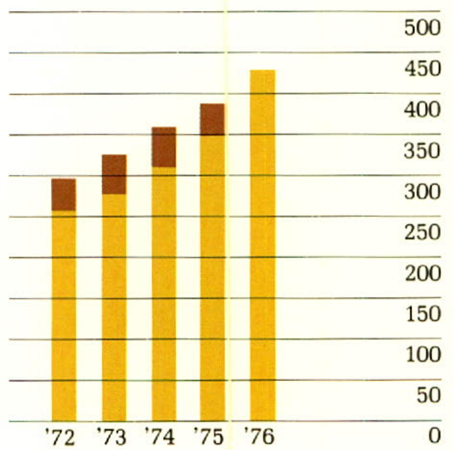
Fully diluted earnings per common share were $4.84 for fiscal 1976, an increase of $0.46 per share or 10.5% over restated $4.38 per share earnings in fiscal 1975. Fully diluted earnings per common share reported for fiscal 1975 were $4.47.

Net earnings and fully diluted earnings per common share for each quarter are compared in the following:

	Net Earnings (In millions)		Net Earnings per Share	
	Fiscal 1976	Fiscal 1975	Fiscal 1976	Fiscal 1975
First quarter	$12.2	$12.9	$0.89	$0.94
Second quarter	14.0	13.9	1.01	1.01
Third quarter	20.0	18.0	1.44	1.29
Fourth quarter	20.8	15.5	1.50	1.14
	$67.0	$60.3	$4.84	$4.38

WORKING CAPITAL

Millions of Dollars



As reported

Restated for companies acquired on a pooling of interests basis for years prior to their affiliation.

FINANCIAL POSITION

The company's strong financial position showed continued improvement during the 1976 fiscal year.

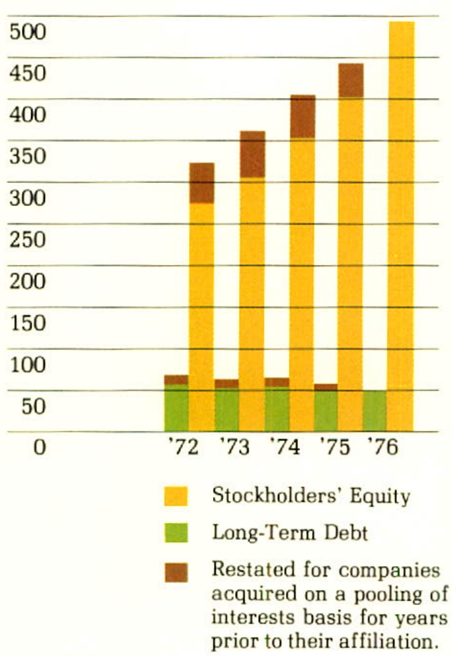
- The excess of current assets over current liabilities—the working capital of the company—reached a new record high of $428.2 million at the end of fiscal 1976—an increase of $40.4 million over the previous year.

Fiscal 1976 in Review

- The working capital ratio—current assets to current liabilities—was 4.2 to 1 at February 29, 1976.
- Cash and marketable securities totaled $85.1 million at year-end, an increase of $37.0 million over one year ago, with no outstanding short-term borrowings.
- Accounts Receivable were $177.8 million at February 29, 1976, an increase of 3.8% over one year ago. In the fourth quarter of fiscal 1976, sales were 14.7% higher than the fourth quarter of last year; therefore, constant attention to the collection of receivables has kept the increase to a minimum.
- Inventories were $293.2 million at year-end, higher by $26.9 million over one year ago. Inventories have increased, especially retail merchandise, and manufacturing raw materials and work in process, to satisfy the forecast of sales improvement going into fiscal 1977.
- Long-term debt, less current maturities, represented 10.1% of the invested capital required for the company, and declined to $56.1 million at February 29, 1976.
- Stockholders' equity was $496.9 million at February 29, 1976—up 11.1% from $447.1 million at the end of fiscal 1975. Book value per common share increased from $32.59 to $36.24 at February 29, 1976, and the return on average stockholders' equity was 14.1% for fiscal 1976.

STOCKHOLDERS' EQUITY AND LONG-TERM DEBT

Millions of Dollars



CAPITAL EXPENDITURES

Expansion and modernization of operating facilities and retail locations continued during fiscal 1976 with capital expenditures of $21.5 million. Depreciation was $14.4 million for the year.

INTERCO is budgeting $23 million for capital expenditures in fiscal 1977, largely for machinery and equipment, new apparel manufacturing plants, new apparel customer distribution centers, and additional footwear retail and general retail locations around the country. Depreciation is estimated to be $15 million in fiscal 1977.

DIVIDENDS

Cash dividends of $18.9 million were paid during fiscal 1976—$16.9 million to holders of common stock, and the remainder to holders of preferred stock and by pooled companies prior to combination. Fiscal 1976 was the sixty-fifth consecutive year of cash dividend payments on INTERCO common stock.

Quarterly common stock cash dividends per share were paid as follows:

	Fiscal 1976	Fiscal 1975
First quarter	$0.36½	$0.34
Second quarter	0.36½	0.36½
Third quarter	0.36½	0.36½
Fourth quarter	0.38	0.36½

COMMON STOCK

There were 13,320,326 shares of common stock outstanding on February 29, 1976.

The market price range per share of the company's common stock, as quoted on the New York Stock Exchange, is shown in the following:

	Fiscal 1976	Fiscal 1975
First quarter	$35⅞ — $26¼	$31¾ — $24⅝
Second quarter	39¼ — 28	27½ — 20¼
Third quarter	40¾ — 29¾	23¼ — 17
Fourth quarter	48 — 37	26¼ — 17

The closing market price of INTERCO's common stock on February 29, 1976, was $44.50 per share.

ACQUISITIONS

- Sidney Gould Co. Ltd. was acquired for cash on March 3, 1975, and its results of operations are included herein for the first time.
- Queen Casuals, Inc. was acquired on February 20, 1976, in an exchange of 849,739 shares of INTERCO common stock for the outstanding capital stock of this major women's casual apparel designer and manufacturer.
- Londontown Corporation was acquired February 25, 1976, in an exchange of 931,089 shares of INTERCO common stock for the outstanding capital stock of this prestigious designer and manufacturer of men's and women's outer garments.

EXECUTIVE APPOINTMENTS

The importance of providing continuity of capable and experienced corporate and divisional leadership resulted in the following appointments during the year:

▪ On June 16, 1975, the following corporate officers were elected by the Board of Directors:

- William L. Edwards, Jr., formerly Senior Executive Vice President, Chief Administrative Officer and Treasurer was elected Vice Chairman of the Board and Chief Administrative Officer.
- Edward P. Grace was elected Treasurer of the company. He was formerly Assistant Treasurer.
- Stanley F. Huck, formerly Assistant Controller, was elected Controller.
- Russell L. Baumann was elected Assistant Controller of the company.

▪ On July 3, 1975, Saul Brodsky, formerly President, became Chairman of the Board of The Biltwell Company, Inc., and Larry Pollack became its President.

▪ J. Carl Powers, formerly Executive Vice President of International Shoe Company, was elected its President on December 9, 1975, succeeding the late Edward J. Riley. Mr. Powers was also appointed to the Operating Board of INTERCO on the same date.

▪ On March 8, 1976, the Presidents of INTERCO's newest member companies—Queen Casuals, Inc. and Londontown Corporation—were appointed to the Operating Board of INTERCO:

- Harvey Saligman, President, Queen Casuals, Inc.
- Jonathan P. Myers, President, Londontown Corporation.

▪ On April 12, 1976, Stanley Matzkin, formerly Executive Vice President of Devon Apparel, Inc., became its President, succeeding William Forman who is retiring on December 31, 1976. Also, Mr. Matzkin was appointed to the Operating Board of INTERCO on April 12, 1976.

NEW DIRECTOR ELECTED

On June 16, 1975, Ronald L. Aylward, Vice President and General Counsel of the company, was elected to the Board of Directors.

FORM 10-K—ANNUAL REPORT

INTERCO will furnish to any shareholder, without charge, a copy of its current annual report on Form 10-K, as filed with the Securities and Exchange Commission. A copy of this report may be obtained by written request to the Treasurer, INTERCO INCORPORATED, Ten Broadway, St. Louis, Missouri 63102.

TRADEMARKS

The trademarks of INTERCO INCORPORATED and its subsidiaries, when used in the Annual Report, are italicized.

Londontown Corporation joins INTERCO

Londontown Corporation, headquartered in metropolitan Baltimore, Maryland, became a part of the Apparel Manufacturing Group of INTERCO on February 25, 1976.

Londontown's famous trademark *London Fog* is synonymous to the American consumer with quality outer garments for men and women. Long-established as a leader in men's and women's rainwear, Londontown today has become America's largest outer garment designer, manufacturer and distributor. Its wide range of products includes rainwear, golf jackets, heavy outer garments, car coats and stadium coats including leathers and suedes.

Through its three separate sales forces, Londontown markets three important brand names . . . *London Fog* . . . *Clipper Mist* . . . and *Startown* . . . to 7,700 leading retailers throughout the country.

Londontown produced the first all-weather coat with a zip-out liner, suitable for year-round wear, constructed of the finest polyester and cotton fabrics and having the finest quality in the marketplace. It also introduced — *The Maincoat* — by Londontown, the first "wash and wear" coat. This led to the creation of a whole new industry of which Londontown became and continues to be the preeminent leader.

The *Clipper Mist* brand was introduced in 1970 and today, is produced and marketed as a fashion line of men's and women's raincoats and outer garments at popular prices. Rounding out Londontown's products for men is *Startown* — a moderately-priced line of leather outer garments for the male consumer.

Recognizing in 1974, the need for larger customer distribution facilities to satisfy increasing demand for its products, plans were initiated for a 460,000 square foot complex in Eldersburg, Maryland. This centralized customer distribution facility and general office, when occupied in mid-1976, will provide greater operating efficiency and will help sustain the orderly growth of Londontown.

Londontown maintains regional showrooms in five cities throughout the country to accelerate its growth —Chicago, New York, Los Angeles, Atlanta and Boston.

INTERCO believes there is an enormous market in the broad category of outer garments. Londontown, with its expert management, well-known and accepted product lines, together with its reputation for quality and styling, gives INTERCO another new market opportunity in which to expand in the years ahead.

London Fog®

... and Queen Casuals, Inc. joins INTERCO

LADY QUEEN®

This major designer, manufacturer and distributor of women's sportswear joined INTERCO's Apparel Manufacturing Group on February 20, 1976.

Queen Casuals, Inc., founded in 1924, serves two distinct markets in providing a wide variety of popular-priced misses and women's sportswear and casual apparel, both in knitted and woven fabrics.

The *Queen Casuals* label is directed to sportswear for misses and women's sizes eight to twenty, and the *Lady Queen* label provides up-to-the-minute fashion offerings for the larger sizes.

In keeping with Queen Casuals' aggressive marketing goals, it will introduce this Fall a new line of sportswear for the "young contemporary miss" — *Independents* —which will provide this market with new, fashionable, updated and moderately-priced separates. Queen Casuals, Inc. apparel is also individually designed under private label for large national retail chains.

Products include pants, skirts, culottes, shirt jackets, vests, and blazers together with a large variety of coordinating shirts, shells, T-shirts and sweaters. Coordination of color, style, and fabric permits all selections to be purchased as separates or as a collection of fashionable looks. Queen Casuals' lines are sold through 5,500 retailers across the country, including major department stores and specialty shops.

Executive offices are located in Philadelphia, Pennsylvania, with marketing headquarters, design facilities, and showrooms located in New York City. The company, to support its constantly expanding national distribution, also maintains showrooms in Dallas, Miami and Chicago.

To accommodate further its growing distribution, Queen Casuals, Inc. has plans to expand its customer distribution complex in Philadelphia during fiscal 1977.

Queen Casuals' excellent management, its product identification and acceptance, and its extensive line of sportswear provides INTERCO with another, good growth opportunity in the women's apparel portion of its business.

Apparel Manufacturing Group

Fiscal 1976 was another growth year for INTERCO's apparel manufacturing business.

Despite a severe general economic downturn, the apparel operations of INTERCO again registered record sales and earnings.

The Apparel Manufacturing Group contributed $484.6 million or 35.2% of the consolidated sales and $65.9 million or 46.8% of the earnings of the company, a return of 13.6% on sales before income taxes, corporate expenses and interest cost.

Equally as important as the record performances during fiscal 1976, in sales and earnings, was the acquisition of two major, well-known apparel companies whose products enjoy broad consumer brand identification—Queen Casuals, Inc. and Londontown Corporation.

INTERCO is a producer of a full range of casual apparel and sportswear for men, young men and boys. The moderately-priced fashion apparel for the male consumer includes sport, knit and dress shirts, woven and knit slacks, sweaters, sport coats, leisure suits, jeans, swimwear, walk shorts, western wear, rainwear, golf jackets, heavy outer garments, car coats and stadium coats.

Fiscal 1976 completed INTERCO's second very successful year in the women's apparel manufacturing business. Its lines of sportswear and casual apparel serve two distinct female markets—the junior, and the more sophisticated look for the missy market. INTERCO's moderately-priced apparel for women—apparel with a strong fashion image—includes suits, dresses, pants, skirts, jackets, sweaters, blouses, shirts, T-shirts, jumpers, vests, jeans, culottes, blazers, rainwear, golf jackets, heavy outer garments, car coats and stadium coats.

To allow INTERCO's apparel companies to offer fashion at a value, new apparel manufacturing techniques and technological improvements are continually reviewed and tested for greater productivity, lower costs and improved quality.

The demand for sportswear and casual apparel is expected to continue to grow, and the company's facilities are expanding to meet the demands of our customers. Current plans for fiscal 1977 include a minimum of two additional apparel manufacturing plants, and a 20% increase in distribution facilities. Also, to provide for the planned growth of our apparel manufacturing business, additional outside contractors will be added to meet our production requirements.

Leisure and sportswear will continue to be the main thrust of the apparel business of INTERCO to meet the increasing consumer demands of today's life-style approach to fashion for men and women.

With a continuing emphasis on quality control, cost reduction, and fashion merchandising, INTERCO's apparel management expects to continue to increase its share of this growing market in the years ahead.

Major apparel brands and trademarks:

For men and young men:
Big Yank • Biltwell • Campus • Clipper Mist • Concept II by Campus • Cowden • Esprit by Campus • Impact 70's • Joe College by Campus • John Alexander • Leonard Macy • London Fog • Mr. Golf • Mr. Tennis • Pro-action by Campus • Startown • Studio One by Campus • Tailor's Bench.

For women and young women:
Clipper Mist • College-Town • Devon • Departures by Devon • Independents by Queen Casuals • It's Pure Gould • Lady Devon • Lady Queen • London Fog • Pant-her • Pure Gould Plus • Queen Casuals.

pant'her

JEANS FOR THE FAMILY

Apparel Manufacturing Group

college·town

TODAY'S LIFESTYLES
BY CAMPUS

devon.

lady devon.

it's pure gould

General Retail Merchandising Group

Major Retail Trading Names:

Central Hardware • *Carithers* • *Eagle Family Discount Stores* • *Fine's Men's Shops* • *Golde's Department Stores* • *Hirsch Value Centers* • *Idaho Department Stores* • *Jeans Galore* • *Keith O'Brien* • *Kent's* • *Lin-Brook Hardware* • *Miller's* • *P. N. Hirsch* • *Shainberg's* • *Standard* • *Thornton's* • *United* • *Wigwam.*

The past year was a very difficult period for the retailing industry, but INTERCO's General Retail Merchandising Group again posted record high sales and earnings.

The General Retail Group contributed $425.9 million or 30.9% of total sales volume, and $30.2 million or 21.5% of the earnings, a record high return on sales of 7.1% before income taxes, corporate expenses and interest cost. The sales increase amounted to 10.5% and the earnings gain before taxes, corporate expenses and interest cost was 19.5%.

The improved profitability of this group was made possible by its aggressive sales programs, know-how merchandising techniques, ability to control costs and to project adequately the trends and the needs of its customers.

The continuing goal of providing basic, essential everyday needs to the consumer increased our competitive position during the past year. INTERCO will continue to emphasize its program of providing products and services in its retail stores which stress quality at lower prices to meet the shopping needs of the cost-conscious consumer.

Our retail group continues to emphasize employee programs for in-depth internal training of store managers and other key management people. This sustains INTERCO's policy of promotion from within the company to accommodate our profitable growth in retailing.

During fiscal 1976, the Retail Group opened 27 modern, ease-of-shopping locations, while closing marginal stores and relocating others. Present plans include about 50 new locations for fiscal 1977.

• Led by the aggressive *P. N. Hirsch & Company* management team, this 380-store chain of junior department stores continued its growth in fiscal 1976. This chain, serving the basic clothing and small household needs, generally in smaller communities, continues to relocate its stores in the growth area of each community, as well as satisfying basic consumer needs by entering additional communities on an orderly basis.

• *Central Hardware Company* had another outstanding year in fiscal 1976, with record sales and earnings. *Central's* supermarket merchandising approach to hard goods provides the home-improvement do-it-yourselfer with wide assortments and one-stop shopping convenience in 25 giant locations. The growth will continue in the future with the expansion of existing markets and the entering of new metropolitan areas.

• The *Eagle Family Discount Stores*, with 169 locations, offering on a cash and carry basis everyday sundries and hard goods, including clothing, housewares, small household appliances, gardening and pool supplies, toys, health and beauty aids, and hardware, will continue to enter new communities in Florida and the growing market potential of the Southeast.

• *Fine's, Standard,* and *United* — INTERCO's chain of 74 men's specialty fashion apparel shops — which carry an extensive line of medium-priced apparel and other male furnishings, showed gains in volume and earnings in fiscal 1976. They plan several new stores during fiscal 1977.

• The 7 specialty department stores, operating under the name of *Golde's*, strengthened their competitive position during fiscal 1976. Further expansion is planned.

Each of the five retail groupings above, which total 655 locations, contributed to the record sales and earnings attained by the General Retail Group in fiscal 1976.

The General Retail Merchandising Group of INTERCO enters the new year confident of substantial future growth and should have another record performance in fiscal 1977.

P.N. HIRSCH & CO.
Department Stores

General Retail Merchandising Group

CENTRAL HARDWARE

EAGLE
FAMILY DISCOUNT STORES


GOING YOUR WAY
Slacks


Golde's


United Shirt


Fine's
MEN'S SHOP


Standard Sportswear

Footwear Manufacturing and Retailing Group

INTERCO maintained its position during fiscal 1976 as one of the dominant shoe manufacturers and shoe retailers in the country. The Footwear Group contributed $465.9 million or 33.9% of the consolidated sales, and $44.7 million or 31.7% of the earnings of the company. This represented a 9.6% profit on sales before income taxes, corporate expenses and interest cost. Sales and earnings, however, were lower than the record performance by the Footwear Group for the fiscal year ended February 28, 1975.

This satisfactory performance of the Footwear Group was achieved despite a severe reduction of footwear inventories at the retail level and a drastic change in styling for men and women, starting in late 1974 and continuing through mid-1975.

Footwear Retailing

INTERCO's retail shoe operations achieved record sales and earnings during fiscal 1976. At year-end there were 867 shoe stores and leased shoe departments in operation, including 55 locations opened during the year, located mainly in leading shopping centers in major metropolitan areas. These included *Florsheim Shoe Shops* for men, leased shoe departments in leading clothing and department stores, and *Florsheim Thayer McNeil Shops* featuring *Florsheim* shoes for women and/or men. In addition, the company continued to relocate or close operations in declining markets during the year.

Florsheim continued its highly successful international retail expansion during fiscal 1976, and at year-end was operating 14 men's shoe shops in Canada, Mexico and Australia.

Approximately 35 additional retail units are planned for fiscal 1977.

Footwear Manufacturing

During the first six months of fiscal 1976, INTERCO experienced a decline in sales and earnings in footwear manufacturing operations; however, in the second half of fiscal 1976, sales and earnings were more than the record operating performance for the same six-month period of last year.

The renewed consumer and retailer demand for INTERCO's superior quality and distinctively-styled footwear has continued into fiscal 1977. Shoe factories are presently operating at full capacity with improved productivity, and two manufacturing facilities were added by Florsheim in March 1976 in Puerto Rico.

• The Florsheim Shoe Company which emphasizes quality leather, fashion and quality craftsmanship, maintained its unchallenged position of leadership during the year just ended, and is benefiting from the increased demand in the marketplace for quality footwear for men and women, and the trend to more conservative apparel.

• The popular-priced footwear for men, women and children offered by International Shoe Company, both branded and private-label, is showing renewed strength going into the first quarter of fiscal 1977. *Hy-Test*, the leader in safety shoes for men and women, is pioneering a new manufacturing process — SEAL - FLEX — which will set a new standard in manufacturing for the safety shoe industry.

• In Canada, the restructuring of Interco Savage contributed to their record earnings in fiscal 1976.

General

INTERCO, in fiscal 1977, expects its footwear business to continue its position of leadership and to capture its share of renewed consumer and retailer demand for quality footwear.

Major Footwear Brands and Trademarks:

For men:
Ambassador • City Club • Florsheim — Florsheim Imperial and Royal Imperial • HyTest • Idlers by Florsheim • Julius Marlow • McHale • Rand • Roberts • Winthrop • Worthmore.

For women:
Denny Stewart • diVina • Florsheim • Idlers by Florsheim • Imperial and Ramblers by Florsheim • Miss Wonderful • Personality • Thayer McNeil • Thomas Wallace • Vitality.

For children:
Red Goose • Poll Parrot • Savage.

Major Retail Trading Names:

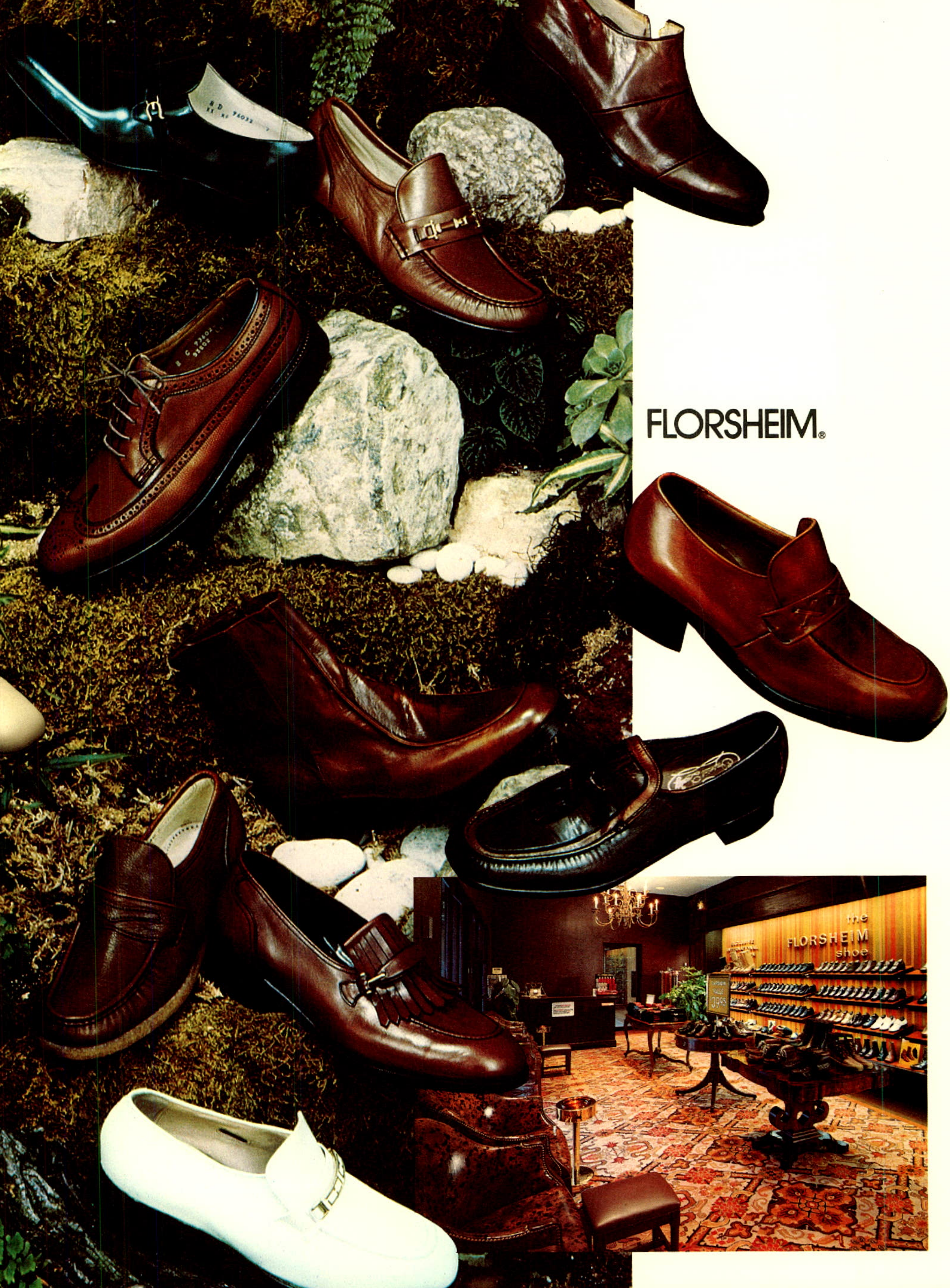
Florsheim Shoe Shops for Men • Florsheim Thayer McNeil Men's and Women's Shops • Duane's • Gude's • Paul's Shoes • Phillips Shoes • Thayer McNeil Shoes • Thompson, Boland & Lee.

RAND.
HY-TEST.
Ambassador.
WINTHROP.
VITALITY.
DIVINA.
Personality.
Miss Wonderful.
Poll-Parrot.
RED GOOSE.

International
shoe company

Footwear Manufacturing and Retailing Group

FLORSHEIM®



Consolidated Balance Sheet

(Dollars in thousands)

ASSETS

	February 29 1976	February 28 1975
Current assets:		
Cash	**$ 5,457**	$ 9,444
Marketable securities, principally commercial paper, at cost which approximates market	**79,595**	38,607
Receivables, less allowance for doubtful accounts and cash discounts of $8,460 ($6,946 in 1975)	**177,819**	171,307
Inventories	**293,247**	266,341
Prepaid expenses	**3,093**	3,129
Future income tax benefits	**4,030**	3,241
Total current assets	**563,241**	492,069
Excess of investment over equity in subsidiaries at acquisition, net of amortization	**9,539**	9,770
Sundry investments and other assets	**6,770**	6,751
Future income tax benefits	**1,574**	2,567
Property, plant and equipment	**229,741**	216,961
Less accumulated depreciation	**110,743**	103,749
Net property, plant and equipment	**118,998**	113,212
	$700,122	$624,369

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 29 1976	February 28 1975
Current liabilities:		
Current maturities of long-term debt	**$ 4,084**	$ 4,256
Accounts payable and accrued expenses	**113,209**	85,534
Income taxes	**17,708**	14,450
Total current liabilities	**135,001**	104,240
Long-term debt, less current maturities	**56,126**	59,499
Deferred compensation and other deferred liabilities	**8,629**	10,294
Minority interests in subsidiaries	**3,502**	3,243
Stockholders' equity:		
Preferred stock, at stated and liquidating value	**14,133**	15,984
Common stock, at stated value	**99,902**	98,156
Capital surplus	**35,027**	31,180
Retained earnings	**347,802**	301,773
Total stockholders' equity	**496,864**	447,093
	$700,122	$624,369

Consolidated Statement Of Earnings

(Dollars in thousands except per share data)

Years Ended	February 29 1976	February 28 1975
Income:		
Net sales	**$1,376,365**	$1,333,229
Other income, net	**11,919**	11,293
	1,388,284	1,344,522
Costs and expenses:		
Cost of sales	**959,460**	936,157
Selling, general and administrative expenses	**292,131**	282,791
Interest expense	**3,623**	5,722
Minority interests	**418**	416
	1,255,632	1,225,086
Earnings before income taxes	**132,652**	119,436
Income taxes	**65,643**	59,140
Net earnings	**$ 67,009**	$ 60,296
Per share of common stock:		
Fully diluted earnings	**$ 4.84**	$ 4.38
Primary earnings	**$ 4.95**	$ 4.49

See accompanying notes to consolidated financial statements.

Consolidated Statement Of Changes In Financial Position

(Dollars in thousands)

Years Ended	February 29 1976	February 28 1975
Working capital provided by:		
Net earnings	$ 67,009	$ 60,296
Items not affecting working capital:		
Depreciation	14,364	13,934
Future tax benefits	993	56
Other, net	(1,127)	853
Operations	81,239	75,139
Disposal of property, plant and equipment	3,008	1,837
Issuance of common stock for conversion of preferred stock—contra below	1,746	305
Issuance of common stock for restricted stock plan	—	88
Exercise of stock options	996	155
Issuance of long-term debt	1,053	1,310
Working capital of purchased company	987	—
To conform pooled companies' fiscal years	818	—
Decrease in funds in escrow for construction	—	1,106
Other, net	273	—
	90,120	79,940
Working capital used for:		
Additions to property, plant and equipment	21,485	22,130
Cash dividends	18,941	18,120
Conversion of preferred stock—contra above	1,746	305
Reduction of long-term debt	4,426	6,082
Purchase of company	3,000	—
Purchase of company's stock	—	260
Purchase and retirement of preferred stock	111	—
Other, net	—	118
	49,709	47,015
Increase in working capital	$ 40,411	$ 32,925
Working capital increased (decreased) by:		
Cash and marketable securities	$ 37,001	$ 15,736
Receivables	6,512	(1,682)
Inventories	26,906	(4,265)
Other current assets	753	(282)
Current maturities of long-term debt	172	(470)
Accounts payable and accrued expenses	(27,675)	21,416
Income taxes	(3,258)	2,472
	$ 40,411	$ 32,925

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(Dollars in thousands except per share data)

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Total
Balance February 28, 1974:					
As originally reported	$16,289	$81,898	$41,825	$219,338	$359,350
Adjustments for pooled companies		15,854	(10,979)	40,709	45,584
As restated	16,289	97,752	30,846	260,047	404,934
Net earnings				60,296	60,296
Cash dividends:					
Preferred stock				(850)	(850)
Common stock — $1.43½ per share				(16,037)	(16,037)
By pooled companies prior to combination				(1,233)	(1,233)
Conversion of preferred stock:					
Series B — 7,637 shares	(305)	114	191		
Exercise of stock options:					
Common — 8,848 shares		67	88		155
Restricted stock plan of pooled company:					
Common — 4,324 shares		33	55		88
Issuance of 41,985 contingent common shares		315		(315)	
Acquisition and effective retirement of 16,602 treasury shares acquired by pooled company		(125)		(135)	(260)
Balance February 28, 1975, as restated	15,984	98,156	31,180	301,773	447,093
Net earnings				67,009	67,009
Cash dividends:					
Preferred stock				(791)	(791)
Common stock — $1.47½ per share				(16,935)	(16,935)
By pooled companies prior to combination				(1,215)	(1,215)
Stock dividend by pooled company prior to combination — 141,662 shares		1,062	1,795	(2,857)	
Purchase and retirement of preferred stock:					
Series B — 2,615 shares	(105)		(6)		(111)
Conversion of preferred stock:					
Series B — 1,082 shares	(43)	16	27		
Series C — 17,032 shares	(1,703)	390	1,313		
Exercise of stock options:					
Common — 37,017 shares		278	718		996
Adjustment to conform pooled companies' fiscal years				818	818
Balance February 29, 1976	$14,133	$99,902	$35,027	$347,802	$496,864

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

February 29, 1976 and February 28, 1975

1. **Significant Accounting Policies** — The company and its subsidiaries employ generally accepted accounting principles on a consistent basis to present fairly their consolidated financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Principles of Consolidation — The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries. Foreign subsidiaries (principally Canadian) are not material in relation to consolidated financial position or results of operations. All material intercompany transactions have been eliminated in consolidation.

Fiscal Year — The company's fiscal year ends on the last day of February. In this report, all reference to fiscal 1976 refers to the fiscal year ended February 29, 1976, and fiscal 1975 refers to the fiscal year ended February 28, 1975.

Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market, except for most footwear manufacturing inventories which are priced on the "last-in, first-out" method of inventory valuation.

Property, Plant & Equipment — Property, plant and equipment is stated at cost, less accumulated depreciation. For financial reporting purposes, the company employs both accelerated and straight-line methods in computing depreciation. Generally, for tax purposes, accelerated methods are used and provision is made for deferred income taxes.

Excess of Investment Over Equity in Subsidiaries — Cost in excess of net assets of companies acquired is being amortized on a straight-line basis, generally over 40 years.

Start-Up Expenses — Start-up expenses of new facilities are charged to operations in the year incurred.

Pension Plans — The company's policy with respect to principal pension plans is to fund pension costs accrued, and to amortize prior service costs, generally over 30 years.

Income Taxes — Investment tax credits are reflected as a reduction of Federal income taxes in the period in which qualified property is placed in service.

It is the company's intent that the undistributed earnings of subsidiaries will either be reinvested in the subsidiaries or distributed tax-free to the parent company. Accordingly, no provision has been made for income taxes on such undistributed earnings.

2. **Business Combinations** — During 1976, the company acquired all the outstanding stock of Queen Casuals, Inc. and Londontown Corporation in exchange for 1,780,828 shares of common stock. These transactions were accounted for as poolings of interests; and, accordingly, the accounts of these companies have been included in the accompanying consolidated financial statements for 1976 and 1975. Consolidated net sales and net earnings for 1975, prior to restatement for these business combinations, were $1,217,895,000 and $53,603,000, respectively. The net sales and net earnings for these companies for 1976, prior to combining, were $113,420,000 and $8,864,000, respectively.

Historically, Queen Casuals, Inc. has reported on a fiscal year ended October 31 of each year, and Londontown Corporation has reported on a fiscal year ended December 31 of each year. In the consolidated statements of earnings, results for the pooled companies for their respective fiscal years ended in 1975 and 1974 have been included with INTERCO INCORPORATED consolidated results for the fiscal years ended February 29, 1976 and February 28, 1975, respectively. Retained earnings have been adjusted for the net earnings and dividends of the pooled companies from the end of their respective 1975 fiscal

Notes to Consolidated Financial Statements (continued)

years to February 29, 1976. During that period, Queen Casuals, Inc. and Londontown Corporation had net sales of $23,960,000 and net earnings of $1,601,000. Dividend payments by these pooled companies prior to acquisition amounted to $783,000 during this period.

Also during 1976, the company acquired Sidney Gould Co., Ltd. for $3,000,000 cash in a transaction accounted for as a purchase. An additional payment may be made in 1978 based upon profit performance of the purchased company. The net sales and net earnings of the purchased company are not material to the consolidated results of operations.

During 1975, the company acquired all the outstanding stock of College-Town, Inc. in exchange for 462,428 shares of common stock. This transaction was accounted for as a pooling of interests.

3. **Inventories** — Inventories are summarized as follows (in thousands):

	1976	1975
Finished products-manufacturing	$ 56,394	$ 57,784
Retail merchandise	157,195	145,665
Work in process	23,468	17,582
Raw materials	56,190	45,310
	$293,247	$266,341

All the major categories of inventory, except retail merchandise, include certain items priced on the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at approximately $316,144,000 and $287,022,000 for fiscal 1976 and fiscal 1975, respectively.

4. **Property, Plant and Equipment** — The major classes of property, plant and equipment, at cost, are as follows (in thousands):

	1976	1975
Land	$ 6,110	$ 6,273
Buildings and improvements	102,405	99,677
Machinery and equipment	112,521	110,008
Construction in progress	8,705	1,003
	$229,741	$216,961

Construction in progress represents expenditures for the new warehouse and office facilities currently under construction in Eldersburg, Maryland, which are scheduled for completion in May, 1976.

Capital expenditures, including construction in progress, amounted to $21,485,000 and $22,130,000 for fiscal 1976 and fiscal 1975, respectively.

Approximately 79% and 76% of depreciation expense was computed on the straight-line method in fiscal 1976 and fiscal 1975, respectively. Depreciation charged to earnings amounted to $14,364,000 in fiscal 1976 and $13,934,000 in fiscal 1975.

5. **Long-Term Debt** — Long-term debt consists of the following:

	1976	1975
	(in thousands)	
4⅝% promissory installment notes, payable $1,875,000 annually, 1976-1989, and balance in 1990	$ 38,750	$ 40,625
6% promissory installment notes, payable $1,250,000 annually, 1976-1979, and balance in 1980	7,125	7,875
4¾% obligation under long-term lease, payable in annual installments increasing from $285,000 in 1976 to $565,000 in 1991	6,630	6,905
Various obligations due cities and other governmental agencies at 1% to 6½%, payable in varying amounts through 1993	5,000	5,211
Foreign mortgages payable with interest rates varying from 12% to 14%, due in 1981	630	655
Other debt at 4½% to 8% interest rates, payable in varying amounts through 1990	2,075	2,484
	60,210	63,755
Less current maturities	4,084	4,256
	$ 56,126	$ 59,499

Current maturities of long-term debt in the five years following February 29, 1976, are as follows (in thousands):

1977	$ 4,084
1978	4,105
1979	4,168
1980	4,117
1981	5,528

The $4\frac{5}{8}$% note agreement restricts retained earnings of $43,810,000 as to payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock. The agreement also provides that no such payments be made unless consolidated working capital shall be at least $80,000,000.

6. Preferred Stock — The company's preferred stock is issuable in series. Authorized preferred stock consists of 577,060 shares of first preferred and 1,000,000 shares of second preferred, both without par value.

Preferred stock, at stated and liquidating value, is summarized as follows (in thousands):

	1976	1975
First preferred	$ —	$ 148
Second preferred	14,133	15,836
	$ 14,133	$ 15,984

First Preferred Series B — At February 28, 1975, 3,697 shares were issued. During fiscal 1976, 1,082 shares were converted into 2,164 shares of common stock and 2,615 shares were redeemed for $42.10 per share, plus accrued dividends.

Second Preferred Series C — $5.25 cumulative, with stated and involuntary liquidating value of $100 per share; issued 141,327 shares at February 29, 1976, and 158,359 shares at February 28,1975; callable at February 29, 1976 at $105.25, decreasing to $100.00 in 1985; convertible into 3.0534 shares of common stock.

7. Common Stock — The company's common stock consists of 30,000,000 shares authorized with stated value of $7.50 per share, of which 13,320,326 and 13,087,471 shares were issued at February 29,1976 and February 28,1975, respectively.

Shares of common stock were reserved for the following purposes at February 29, 1976:

	Number of Shares
Conversion of preferred stock	431,527
Common stock options:	
Granted	228,375
Available for grant	122,179
Restricted stock plan of pooled company	16,144
Contingent shares based on profit performance of acquired company	18,141
	816,366

Under the company's stock option plans, certain key employees may be granted qualified or non-qualified options to purchase shares of common stock. Qualified options granted under the plans may not be less than 100% of the fair market value of the common stock on the date an option is granted, and non-qualified options at not less than 85%. Qualified options are exercisable at varying dates one year after granting and expire five years after granting. Non-qualified options become exercisable one year after granting and expire ten years after granting. All options which have been granted, qualified and non-qualified, were at 100% of fair market value on the date of grant.

Notes To Consolidated Financial Statements (continued)

Changes in options granted are summarized as follows:

	1976		1975	
	Shares	Average Price	Shares	Average Price
Beginning of year	267,785	$20.33	246,912	$38.60
Assumed options of pooled companies	—	—	28,090	20.06
Options granted	11,400	29.50	217,869	20.22
Options exercised	(37,017)	20.67	(8,848)	17.46
Options cancelled	(13,793)	20.57	(216,238)	41.16
End of year	228,375	20.72	267,785	20.33
Exercisable at end of year	144,201		35,959	

8. **Income Taxes** — Income tax expense is composed of the following (in thousands):

	1976	1975
Current:		
Federal	$57,130	$52,128
State and city	6,345	5,435
Foreign (principally Canadian)	1,964	1,713
	65,439	59,276
Deferred	204	(136)
	$65,643	$59,140
Investment tax credits	$ 734	$ 672

Certain items are recognized for income tax purposes in years other than those in which they are reported in the consolidated financial statements. The tax effect of such differences resulted in net deferred income taxes summarized as follows (in thousands):

	1976	1975
Depreciation	$ 610	$ 152
Installment sales	118	76
Valuation reserves and accruals	(576)	(507)
Deferred compensation	45	(46)
Adjustments resulting from audit of prior years' tax returns	28	188
Other	(21)	1
	$ 204	$(136)

The Federal income tax returns of the company and its major subsidiaries have been examined through fiscal year ended February 28, 1974.

9. **Pension Plans** — The company and its subsidiaries have pension plans covering substantially all employees. Total pension expense was $9,800,000 in 1976 and $9,300,000 in 1975. As of the most recent valuation dates, the actuarially computed value of vested benefits under defined benefit pension plans exceeded assets of the plans by approximately $35,000,000.

10. **Lease Commitments** — Substantially all of the company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various times through the year 2006. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Total rental expense was as follows (in thousands):

	1976	1975
Basic rentals	$ 27,765	$ 26,706
Contingent rentals	12,359	9,887
	40,124	36,593
Less sublease rentals	1,502	1,904
	$ 38,622	$ 34,689

Included in rental expense above is the cost of services provided by lessors of leased retail departments, estimated to aggregate $6,800,000 in fiscal 1976 and $6,200,000 in fiscal 1975.

At February 29, 1976, minimum rental commitments under all noncancellable leases, excluding capitalized leases, are as follows (in thousands):

	Type of Property		
Year	**Real Property**	**Equipment**	**Total**
1977	$ 22,694	$2,032	$ 24,726
1978	21,527	1,442	22,969
1979	19,742	1,010	20,752
1980	18,107	718	18,825
1981	15,568	526	16,094
1982-1986	58,409	112	58,521
1987-1991	30,381	—	30,381
1992-1996	9,654	—	9,654
1997-2006	2,416	—	2,416
	$198,498	$5,840	$204,338

The above minimum rental commitments for real property have been reduced by rentals from subleases. These subleases, expiring at various dates to 1994, provide for aggregate minimum rentals of approximately $5,945,000.

The present value of noncapitalized financing leases, as defined by the Securities and Exchange Commission, and the impact on net earnings if such leases had been capitalized are not material to the accompanying financial statements.

The company has also guaranteed leases of certain retail outlets of customers which at February 29, 1976, aggregated approximately $1,200,000 based on minimum rentals.

11. **Earnings Per Share of Common Stock** — Fully diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the years, plus those common shares which would have been issued if conversion of all preferred stock had taken place at the beginning of each year. Common stock options, the exercise of which would result in dilution of earnings per share, and common stock issuances based on profit performance have been considered as the equivalent of common stock.

Primary earnings per share are based on those shares included in the fully diluted earnings per share calculations, except that conversion of preferred stock has not been assumed. Net earnings for this computation were reduced by preferred stock dividend requirements.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
720 Olive Street
St. Louis, Missouri

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 29, 1976 and February 28, 1975, and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 29, 1976 and February 28, 1975, and the results of their operations, and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 12, 1976 Peat, Marwick, Mitchell & Co.

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)

	FISCAL YEARS ENDED				
	1976	1975	1974	1973	1972
FOR THE YEAR					
Summary of operations:					
Net sales	**$1,376,365**	$1,333,229	$1,268,543	$1,159,067	$1,027,049
Cost of sales	**959,460**	936,157	896,570	818,900	724,187
Interest expense	**3,623**	5,722	5,709	4,950	5,465
Earnings before income taxes	**132,652**	119,436	108,198	94,751	77,360
As a percent of sales	**9.6%**	9.0%	8.5%	8.2%	7.5%
Income taxes	**65,643**	59,140	52,553	46,787	37,342
Net earnings	**67,009**	60,296	55,645	47,964	40,018
As a percent of sales	**4.9%**	4.5%	4.4%	4.1%	3.9%
Earnings applicable to common stock	**66,235**	59,448	54,779	46,980	38,712
Per share of common stock:					
Fully diluted earnings (1)	**$4.84**	$4.38	$4.06	$3.49	$2.96
Dividends	**$1.47½**	$1.43½	$1.32	$1.25	$1.21
Average common and common equivalent shares outstanding (in thousands) (1)	**13,841**	13,780	13,713	13,735	13,509
Cash dividends paid:					
On common stock	**$ 18,150**	$ 17,270	$ 14,418	$ 12,542	$ 11,139
On preferred stock	**$ 791**	$ 850	$ 868	$ 988	$ 1,452
AT YEAR END					
Working capital	**$ 428,240**	$ 387,829	$ 354,903	$ 326,597	$ 299,579
Property, plant and equipment, net	**118,998**	113,212	107,959	95,109	89,164
Capital expenditures	**21,485**	22,130	25,615	17,459	15,677
Total assets	**700,122**	624,369	609,956	561,220	522,044
Long-term debt	**56,126**	59,499	64,271	62,943	69,405
Stockholders' equity	**496,864**	447,093	404,934	365,002	325,626
Book value per common share	**$36.24**	$32.59	$29.50	$26.60	$24.21

(1) Refer to Earnings Per Share of Common Stock in Notes to Consolidated Financial Statements.
(2) The above figures have been restated to include pooled companies for years prior to their acquisition.
(3) Fiscal years end last day in February.

Management's Discussion and Analysis of Operations

Sales for fiscal 1976 again established new records, an increase of 3.2% for the 1976 fiscal year compared to a 5.1% increase for fiscal 1975. In the last half of the fiscal year, consolidated sales increased 10.2% after a sluggish first half which reflected a sales decrease of 3.7%. The Apparel Manufacturing and General Retail Groups maintained their steady growth patterns and had record sales for the year. The Footwear Group's sales in the last half of fiscal 1976 were the highest in history; however, they were unable to overcome the reduction in shipments reflected in the first half when shoe retailers allowed their inventories to fall below normal levels. The retail segment of the footwear business continued strong throughout the fiscal year.

Cost of sales for fiscal 1976 was slightly lower as a percent of sales as compared with fiscal 1975. The strong showing of General Retail and Footwear Retail, which traditionally attain a higher gross profit than either the Apparel or Footwear manufacturing operations, was the main factor contributing to this improvement.

Interest expense decreased by 36.7% in fiscal 1976 from fiscal 1975. This was a direct result of the company's strong financial position throughout the year. Substantially all the interest expense was attributable to the long-term debt of the company. The only short-term borrowing during the fiscal year was of a seasonal nature by one of the pooled companies.

Earnings before income taxes increased by 11.1% in fiscal 1976 as compared to a 10.4% increase in fiscal 1975. The increase in both years can be attributed mainly to the gross profit improvement attained by an increase in sales with a corresponding decrease in cost of sales as a percent of sales. An equally important factor in this improvement was the ability of the company to withstand the recent strong inflationary pressures and, through tight budgetary controls, to maintain selling, general, and administrative expenses at 21.2% of sales for the last three years. The percent improvement in fiscal 1976 over fiscal 1975 was the direct result of the substantial reduction in interest expense.

Income taxes for fiscal 1976 increased by 11.0% over the corresponding period of the previous year. The increase corresponds directly to the improvement in pre-tax profits. The increase for fiscal 1975 was 12.5% and relates principally to the improvement in pre-tax profits, a decline in the investment tax credit and the final step in the phase-out of the surtax exemption.

Directors

*RONALD L. AYLWARD
Vice President and
General Counsel of the Company

*MAURICE R. CHAMBERS
Chairman of the Board and
Chief Executive Officer
of the Company

*STANLEY M. COHEN
President, Central Hardware Company

*WILLIAM L. EDWARDS, JR.
Vice Chairman of the Board and
Chief Administrative Officer
of the Company

RICHARD P. HAMILTON
President, The Florsheim Shoe Company

*PHILIP N. HIRSCH
Chairman of the Board,
P. N. Hirsch & Company

*J. LEE JOHNSON
Retired

EDWIN S. JONES
Chairman of the Board,
First Union Bancorporation

DONALD E. LASATER
Chairman of the Board,
Mercantile Bancorporation Inc. and
Mercantile Trust Company
National Association

*NORFLEET H. RAND
Retired

*JOHN K. RIEDY
President and Chief Operating
Officer of the Company

HERBERT SHAINBERG
Retired

*Members of the Executive Committee of the Board of Directors

Audit and Executive Compensation and Stock Option Committees

J. LEE JOHNSON, Chairman
EDWIN S. JONES
DONALD E. LASATER
NORFLEET H. RAND

Exchange Listings

Symbol	Listed
ISS	New York Stock Exchange
ISS	Midwest Stock Exchange

Office of the Chief Executive

MAURICE R. CHAMBERS
Chairman of the Board and
Chief Executive Officer

WILLIAM L. EDWARDS, JR.
Vice Chairman of the Board and
Chief Administrative Officer

JOHN K. RIEDY
President and Chief Operating Officer

Administrative Officers

PHILIP N. HIRSCH
Vice President

STANLEY M. COHEN
Vice President

RICHARD P. HAMILTON
Vice President

RONALD L. AYLWARD
Vice President and General Counsel

DUANE A. PATTERSON
Secretary

EDWARD P. GRACE
Treasurer

STANLEY F. HUCK
Controller

KEITH E. MATTERN
Assistant Secretary

JAMES K. PENDLETON
Assistant Secretary

WILLIAM R. WITHROW
Assistant Treasurer

RUSSELL L. BAUMANN
Assistant Controller

Transfer Agents

Manufacturers Hanover Trust Company
New York, New York

Mercantile Trust Company National Association
St. Louis, Missouri

Registrars

Morgan Guaranty Trust Company
New York, New York

St. Louis Union Trust Company
St. Louis, Missouri

Operating Board

MAURICE R. CHAMBERS
Chairman of the Board and
Chief Executive Officer of the Company

WILLIAM L. EDWARDS, JR.
Vice Chairman of the Board and
Chief Administrative Officer of the Company

JOHN K. RIEDY
President and Chief Operating
Officer of the Company

RONALD L. AYLWARD
Vice President and General
Counsel of the Company

LIONEL BAXTER
President, Big Yank Corporation

STANLEY M. COHEN
President, Central Hardware Company

WILLIAM B. COWDEN
President, Cowden Manufacturing Company

BARRY S. FINE
President, Fine's Men's Shops, Inc., and
Standard Sportswear, Inc.

RICHARD P. HAMILTON
President, The Florsheim Shoe Company

PHILIP N. HIRSCH
Chairman of the Board,
P. N. Hirsch & Company

DONALD G. MacLEOD
President, Interco Savage Limited

STANLEY MATZKIN
President, Devon Apparel, Inc.

JONATHAN P. MYERS
President, Londontown Corporation

J. CARL POWERS
President, International Shoe Company

CHARLES J. ROTHSCHILD, JR.
President,
Campus Sweater & Sportswear Company

HARVEY SALIGMAN
President, Queen Casuals, Inc.

GERALD SIBLEY
President, College-Town, Inc.

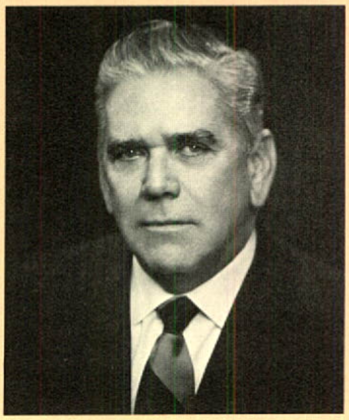
JOHN WEIL
President, Eagle Family Discount Stores, Inc.

Dividend Disbursing Agent

Mercantile Trust Company National Association
St. Louis, Missouri

Independent Accountants

Peat, Marwick, Mitchell & Co.
St. Louis, Missouri



Edward J. Riley
1916-1975

With profound regret, we note the untimely passing of Mr. Riley on December 8, 1975, after an extended illness.

Mr. Riley was President of International Shoe Company at the time of his death, and a Director and Vice President of INTERCO INCORPORATED.

Assuming the Presidency of International Shoe Company in May, 1969, Mr. Riley contributed enormously to the restructuring of that company and led it to new performance levels. His outstanding leadership qualities were recognized not only by his company, but also the shoe industry to which he contributed so much of his time and energy.

He will, indeed, be greatly missed as a dedicated leader in every phase of his career.

Principal Companies of INTERCO

Apparel Manufacturing Group

BIG YANK CORPORATION
New York, New York

THE BILTWELL COMPANY, INC.
St. Louis, Missouri

CAMPUS SWEATER &
SPORTSWEAR COMPANY
New York, New York

COLLEGE-TOWN, INC.
Braintree, Massachusetts

COWDEN MANUFACTURING COMPANY
Lexington, Kentucky

DEVON APPAREL, INC.
Philadelphia, Pennsylvania

LONDONTOWN CORPORATION
Baltimore, Maryland

QUEEN CASUALS, INC.
Philadelphia, Pennsylvania

SIDNEY GOULD CO., LTD.
Garden City Park, New York

General Retail Merchandising Group

CENTRAL HARDWARE COMPANY
St. Louis, Missouri

EAGLE FAMILY DISCOUNT STORES, INC.
Miami, Florida

FINE'S MEN'S SHOPS, INC.
Norfolk, Virginia

GOLDE'S DEPARTMENT STORES, INC.
St. Louis, Missouri

P. N. HIRSCH & COMPANY
St. Louis, Missouri

STANDARD SPORTSWEAR, INC.
Pittsburgh, Pennsylvania

UNITED SHIRT DISTRIBUTORS, INC.
Detroit, Michigan

Footwear Manufacturing and Retailing Group

THE FLORSHEIM SHOE COMPANY
Chicago, Illinois

INTERNATIONAL SHOE COMPANY
St. Louis, Missouri

INTERCO SAVAGE LIMITED
Cambridge, Ontario, Canada

SENACK SHOES, INC.
St. Louis, Missouri

Corporate Offices

Ten Broadway
St. Louis, Missouri 63102
(314) 231-1100

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Post Office Box 8777
St. Louis, Missouri 63102

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